



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 13

MEETING DATE: March 20, 2019

SUBJECT: Education on Private Equity Investments

SUBMITTED FOR: ___ Consent ___ Deliberation and Action X Receive and File

RECOMMENDATION

Staff recommends the Board receive and file the educational presentation by TSG Consumer Partners.

PURPOSE

This agenda item supports the 2019 Annual Investment Plan to provide education to the Board members from Staff, Consultants, and Investment Managers, and contributes to the effective management and oversight of investment activities.

BACKGROUND

TSG focuses on investing in growing medium-sized consumer companies. The firm has raised eight funds investing in both minority and majority control transactions across a broad range of consumer industries including retail, beverage, personal care, household products, and apparel. TSG investments include Planet Fitness, Dutch Bros Coffee, Pabst Blue Ribbon, Sexy Hair, and Vitamin Water.

SCERS' first investment with TSG began in 2015 with a \$16 million commitment to TSG7A and \$4 million to TSG7B. TSG7A focuses on transactions that range between \$60 million and \$150 million in equity and generally target companies with annual revenues ranging between \$50 million and \$500 million. TSG7B was formed to invest in smaller companies and underappreciated brands, targeting investments between \$15 million and \$50 million in companies with annual revenues ranging between \$10 million and \$200 million. In 2018, SCERS invested \$45 million in TSG8.

TSG's investments are flexible in structure, ranging from establishing control of companies through recapitalizations and leveraged buyouts, structuring minority investments, providing growth equity, and forming companies through the carve out of brands from larger corporates. TSG's investment strategy is distinguished by a consistent focus on consumer branded

companies located in North America and an ability to help companies grow. By targeting just one sector, TSG builds deep relationships in the consumer industry, enabling it to source and close transactions with the most promising emerging brands, as well as provide substantial value-added services to its companies. The firm focuses on making operational improvements by emphasizing strategic priorities like market entry, product line extension, and mergers and acquisitions. TSG has historically used conservative amounts of leverage to support meaningful investment in new product introductions, geographic expansion, operations, and increased sales and marketing activities.

The firm's Chief Executive Officer, Chuck Esserman, will be presenting to the Board as part of this agenda item. Mr. Esserman has over 30 years of private equity investment experience.

Before TSG, Mr. Esserman was with Bain & Company, a leading management consulting company. He received his BS, with top honors, in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, and an MBA from Stanford, where he was an Arjay Miller Scholar. He has served on the Board of Advisors of the Stanford Graduate School of Business and the Board of Trustees of Vanderbilt University.

TSG Consumer Partners was founded in 1987 as Montgomery Consumer Partners, through an initial equity interest from Montgomery Securities. In 1988, the firm's founders, Gary Shansby and Mr. Esserman, bought the stake from Montgomery Securities and branded the firm as The Shansby Group. In 2005, Mr. Shansby left the firm to focus on philanthropy; Mr. Esserman began serving as CEO, and the firm rebranded to TSG Consumer Partners.

ATTACHMENTS

- Presentation by TSG Consumer Partners

Prepared by:

/S/

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/S/

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Chief Investment Officer

/S/

Eric Stern
Chief Executive Officer

Over 30
years building
brands
consumers
love

TSG
CONSUMER





OVERVIEW

Founded in 1986, TSG Consumer Partners was among the first private equity firms in the U.S. focused primarily on investing in consumer companies. TSG has assembled an experienced team of consumer industry specialists and has offices in San Francisco and New York

ATTRACTIVE GLOBAL CONSUMER FOCUS

>\$10 trillion industry¹

Select companies have provided attractive returns with lower volatility in both strong and weak economic environments

Digitalization is expanding the global reach of consumer companies

PROVEN TRACK RECORD

30+ year history investing in consumer companies

GROWTH DRIVEN RETURNS

Strategies often expand sales rapidly across distribution channels and geographies as well as develop innovative product line extensions

Functional expertise often facilitates improvements in sales, marketing, digital, operations and financial functions

WELL-DEFINED EXIT STRATEGY²

Substantial majority of realized investments exited to strategic buyers for cash

Large consumer companies generally highly acquisitive and willing to pay a premium for companies with strong brands that leverage their distribution capabilities

Exit strategies generally not dependent upon favorable public market conditions

Note: Past performance is not indicative of future results. Please see "Legal Disclaimers" at the end of this presentation for important information regarding the performance information contained herein.

¹ Source: Euromonitor International 2018.

² There can be no guarantee that any exit transaction will be consummated as planned and previous successful exits are not indicative of future results.

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TSG invests across the broad and massive consumer economy

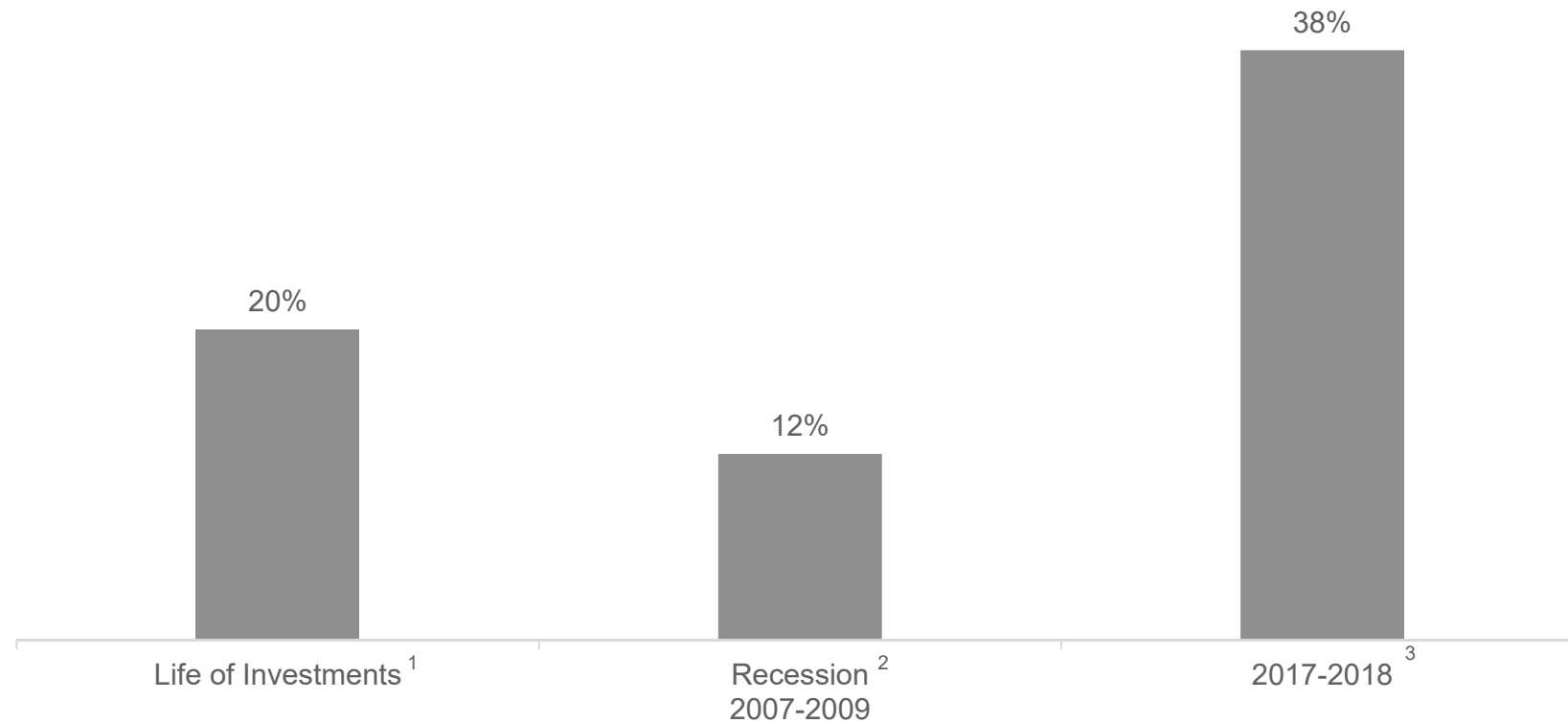
TSG is exclusively focused on providing capital and strategic partnership to consumer companies



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TSG returns are largely driven by growth

TSG Portfolio Average Sales Growth



Note: There can be no assurance that any future investments will have comparable sales growth to the investments described herein. Past performance is not indicative of future results. Please see "Legal Disclaimers" at the end of this presentation for important information regarding the performance information contained herein.

¹ TSG4-TSG6 realized investments (based on sales for the year prior to TSG's investment to the year of TSG's exit).

² TSG investments for 2007-2009.

³ TSG7 A investments. Duckhorn and Sunshine Fitness pro forma for acquisitions. Pro forma information is inherently uncertain and subject to change.

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We bring much more than capital to the table



Brand Building

- Define brand identity and positioning
- Understand consumer perception
- Utilize consumer insights to facilitate informed decisions



Product Innovation

- Launch new categories
- Cultivate and grow in-house labels
- Expand hero franchises



Digital Strategy

- Evaluate digital footprint
- Optimize eCommerce
- Amplify brand voice



Channel Strategy

- Enter new channels profitably
- Grow national distribution networks
- Expand geographic presence



Operations

- Develop scalable infrastructure
- Drive efficiencies in supply chains
- Create culture of productivity



Team Building

- Implement well-defined organizational strategy
- Build world-class, passionate teams
- Recruit critical positions



Acquisitions

- Identify strategic targets
- Analyze feasibility and drive attractive deal terms
- Execute and integrate



Capital Markets & Exits

- Structure attractive financings
- Lead M&A processes
- IPO readiness

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Planet Fitness

- Brand Building
- Product Innovation
- Digital Strategy
- Channel Strategy
- Operations
- Team Building
- Acquisitions

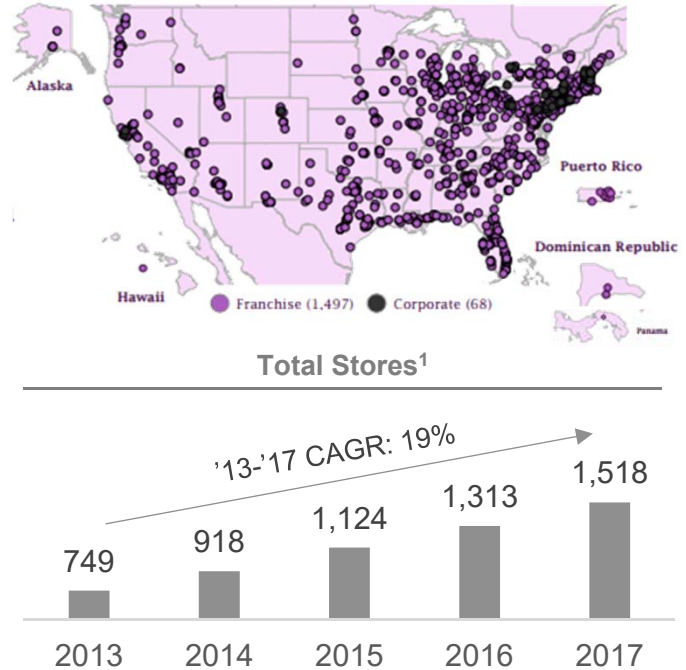
Brand Building

Created an unmatched marketing machine promoting the “judgment free” approach to fitness, growing to ~12MM members globally



Channel Strategy

Capitalized on North American whitespace by increasing West Coast penetration and launching in Canada, Puerto Rico, and the Dominican Republic



Team Building

Built a world-class management team by recruiting / appointing the CEO, CFO, General Counsel, among other key management positions

Executive	Title
Chris Rondeau	CEO
Dorvin Lively	CFO
Richard Moore	General Counsel
Brian Belmont	EVP of Ops & Development
Jessica Correa	SVP of Marketing

Capital Markets & Exits

Multiple dividend recaps

IPO readiness and successful IPO

Investment returned >9x Gross MOIC

Note: Net multiples are unable to be calculated as fees and expense are calculated on a fund-level basis. The gross MOIC shown above does not reflect management fees, carried interest and other expenses which, in the aggregate, are substantial and reduce investor returns. The investment reflected above may not be representative of all TSG investments. Past performance is not indicative of future results. Please see "Legal Disclaimers" at the end of this presentation for important information regarding the performance information contained herein. ¹ Planet Fitness June 2018 investor presentation. Please contact TSG for additional information.

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IT Cosmetics



Product Innovation

Supported a disciplined approach to product innovation and diversification, allowing for greater share of customer wallet

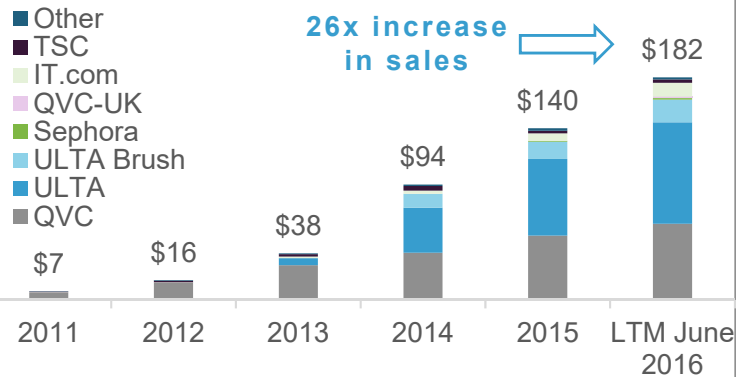


Channel Strategy

Primarily sold through one customer at the time of TSG's investment, we developed a patient strategy to enter specialty retail and expand into new markets



Net Sales by customer¹



Team Building

Developed best-in-class team, growing from 3 FTEs at time of our investment to over 120 FTEs by 2016

Title	Prior Experience
SVP, Sales	philosophy fresh. BOBBI BROWN CLINIQUE
SVP, Operations	LVMH benefit KOLMAR
SVP, Marketing	SEPHORA ipsy LVMH
VP, Marketing	L'OREAL REDKEN TEMPTU
VP, Finance	ARTHUR ANDERSEN at&t CIT
VP, Product Dev.	philosophy kate spade NEW YORK DONNAKARAN NEW YORK
VP, Digital	clarisonic NORDSTROM GOLDWELL
VP, Int'l Sales	bareMinerals Dior
VP, Creative	SHISEIDO la prairie SWITZERLAND bliss

Capital Markets & Exits

Dividend recap

Exit negotiations in sale to L'Oréal

**Investment returned
>25x Gross MOIC**

Note: Net multiples are unable to be calculated as fees and expense are calculated on a fund-level basis. The gross MOIC shown above does not reflect management fees, carried interest and other expenses which, in the aggregate, are substantial and reduce investor returns. The investment reflected above may not be representative of all TSG investments. Past performance is not indicative of future results. Please see "Legal Disclaimers" at the end of this presentation for important information regarding the performance information contained herein. ¹ Internal Company financials as of June 2016. Please contact TSG for additional information.

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Duckhorn

-  Brand Building
-  **Product Innovation**
-  Digital Strategy
-  **Channel Strategy**
-  Operations
-  Team Building
-  **Acquisitions**

Product Innovation

Significantly expanded salesforce to improve geographic coverage and connectivity with retailers



Channel Strategy

Launched first ever Decoy Rosé and expanded into Chardonnay where the Duckhorn brand is underdeveloped

Organic Sales Growth by Brand
 FY July 2018¹

**FY 2018
 +24%
 Organic
 Growth**

DECOY	+27%
DUCKHORN	+25%
<i>Goldeneye</i>	+11%
PARADUXX	+9%
MIGRATION ²	+2%
CANVASBACK	+69%

Acquisitions

Acquired renowned Pinot Noir brands Calera and Kosta Browne; evaluating other strategic acquisitions to drive scale and growth



CALERA

Closed August 2017



Closed August 2018

**Capital Markets
 & Exits**

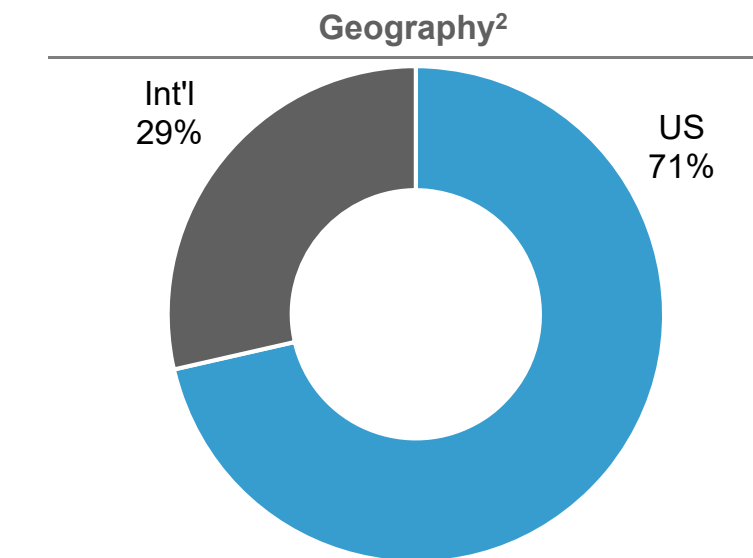
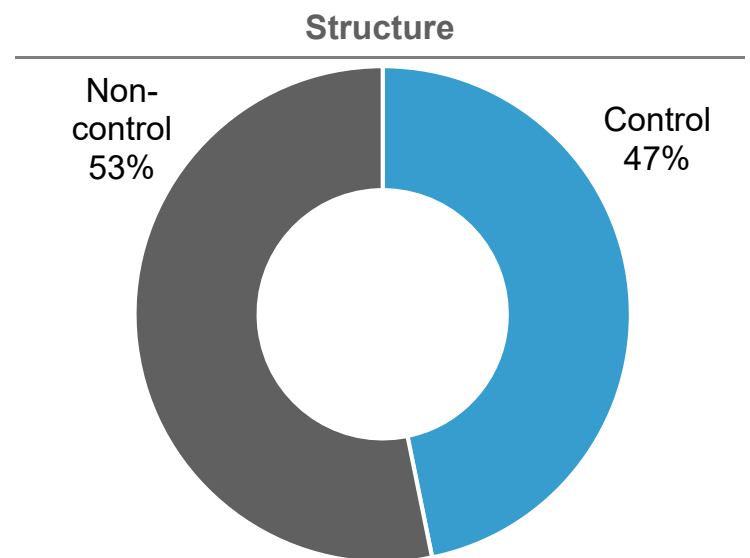
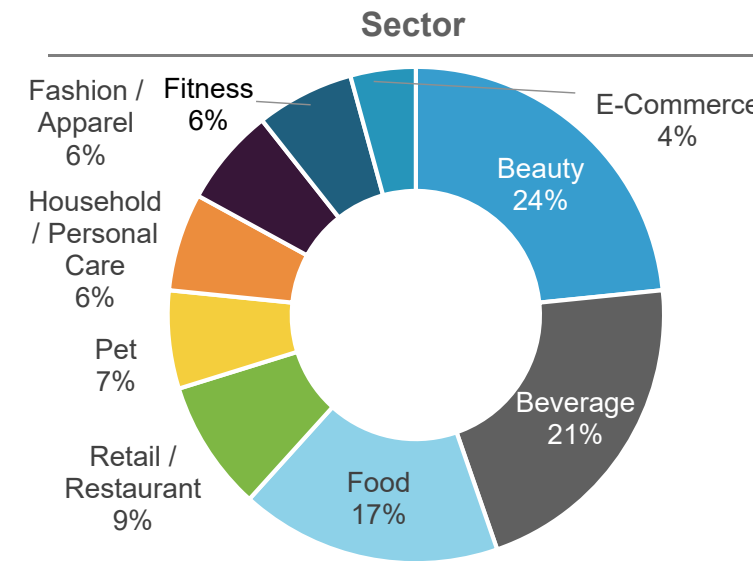
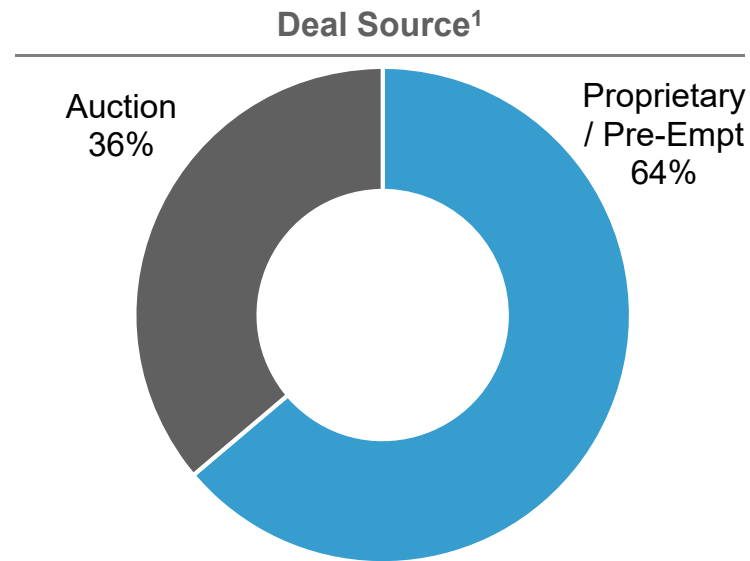
Asset-based and acquisition financing

**Not
 exited**

Note: The investment reflected above may not be representative of all TSG investments. Past performance is not indicative of future results. Please see "Legal Disclaimers" at the end of this presentation for important information regarding the performance information contained herein.
¹ Internal company financials as of July 2018; Company's financial year ends July. ² There can be no assurance that any exit will ultimately be achieved. Please contact TSG for additional information.

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Portfolio characteristics

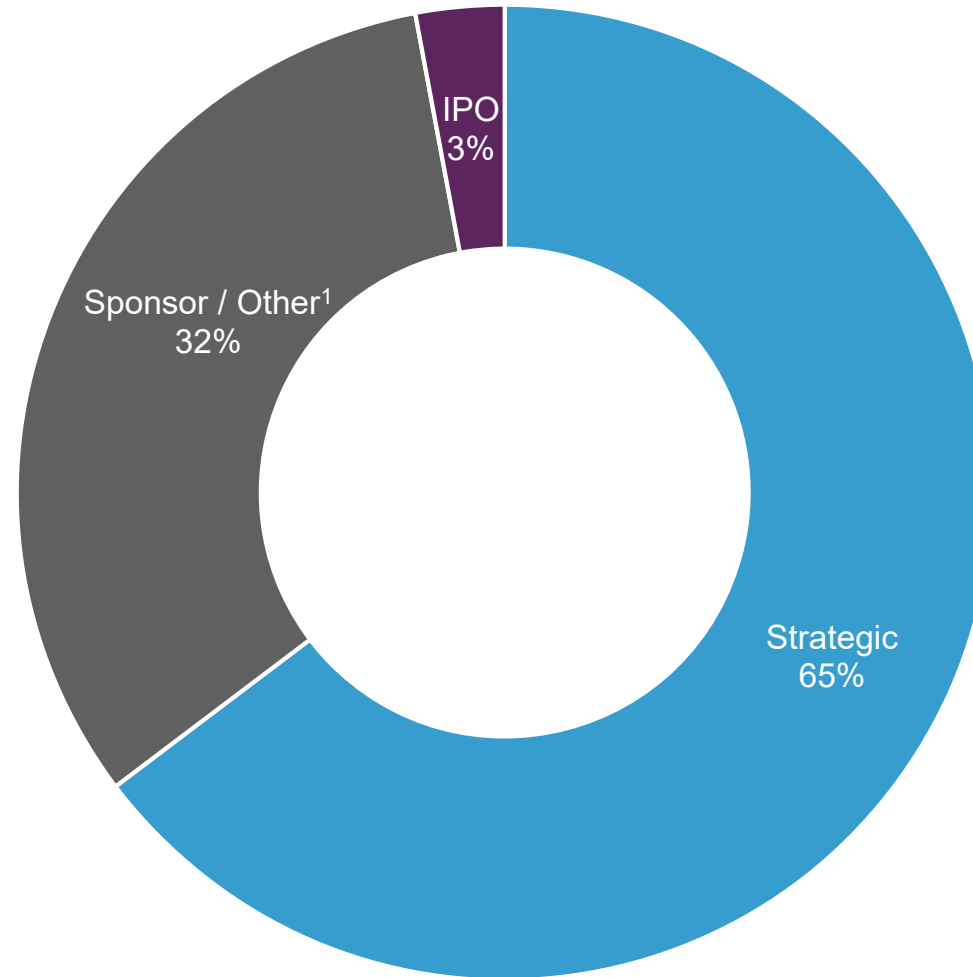


Note: Includes all investments from TSG4, TSG5, TSG6, and TSG7 A. There can be no assurance that TSG8 will have the portfolio characteristics described herein.

¹ Proprietary defined as transactions consummated outside formal banker auctions, and includes auctions that TSG pre-empted. ² Includes all current investments from TSG6 and TSG7 A.

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Majority of exits have been to strategic acquirers



Note: Includes all realized exits for TSG4, TSG5, and TSG6. There can be no assurance that TSG8 will achieve comparable exits.

¹ Includes sale to sponsor / SPAC and back to founder / management.

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Experienced senior team with investment in organization



Chuck Esserman
CEO and Founder
32 Years



Jamie O'Hara
President
20 Years



Hadley Mullin
Senior Managing Director
14 Years



Dan Costello
Managing Director
11 Years



Jessica Duran
CFO and Chief Compliance Officer
10 Years¹



Blythe Jack
Managing Director
7 Years



Mike Layman
Managing Director
9 Years



Pierre LeComte
Managing Director
13 Years



Jennifer Baxter Moser
Managing Director
11 Years



Colin Welch
Managing Director
5 Years¹



Diane Miles
Operating Partner
10 Years¹

Organizational Support

Investment Team

Business Development

Accounting & Compliance

Digital Capabilities

Consumer Insights

Note: Operating Partners are independent contractors of TSG. Operating Partners may receive payments from, or allocations with respect to, TSG's portfolio companies, funds advised by TSG, or TSG.

¹ Includes years working with TSG at third party or portfolio company.

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TSG8 investment criteria

Target Deal Characteristics

Investment Criteria

- Generally \$50 to \$500 million per investment
- Generally annual revenues between \$50 to \$750 million
- Prudent use of leverage to facilitate growth investments

Ownership

- Both majority and minority positions
- Board representation
- TSG favorable shareholders agreement
- Alignment with shareholders and management

Target Company Characteristics

Significant Growth

- Double-digit organic revenue growth
- Large addressable market
- Multiple avenues for growth – product innovation, channel and geographic expansion, digital optimization, M&A
- Opportunity for operating efficiencies as business scales

High Quality

- Defensible market position
- Strong management (existing or that can be recruited)
- Not subject to technological changes or significant R&D requirements
- Visible exit strategy

Note: Actual investments for TSG8 may vary from the targets described herein. Targeted investment characteristics may not be indicative of future investment characteristics and there can be no assurance that TSG will have comparable investment characteristics or that target investment characteristics will be achieved. There can be no assurance that TSG8's investment objectives will be achieved and investment results may vary substantially over time.

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The valuation for the unrealized investments are based on good faith estimates by the applicable investment fund's general partner which is based on the best information available to such general partner in the circumstances and may incorporate TSG's assumptions and involves a significant degree of judgment, taking into consideration a combination of inherently uncertain internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Actual realized returns on unrealized investments will depend on various factors, including future operating results, the value of the assets and market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of disposition, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based. Accordingly, the actual realized returns on unrealized investments may differ materially from the returns indicated herein and there can be no assurances of the amount or timing of pending realizations. Different methods of valuing investments and calculating internal rates of return may also provide materially different results.

Gross multiple of invested capital ("Gross MOIC") is a ratio of the gross return on an investment relative to the original amount of the investment. Gross IRRs and Gross MOIC do not reflect management fees, carried interest, taxes, transaction costs and other expenses that are borne by investors, which will reduce returns, and in the aggregate, are expected to be substantial. To the extent an investment fund reinvests distributions, Gross IRR and Gross MOIC will include any returns generated by reinvested distributions. If such returns are not included, the Gross IRR and Gross MOIC would be lower. Net multiple of invested capital ("Net MOIC") is a ratio of the net return on an investment relative to the original amount of the investment. To the extent an investment fund reinvests distributions, Net MOIC will include any returns generated by reinvested distributions. If such returns are not included, the Net MOIC would be lower. Information regarding Net MOIC is available from TSG upon request.

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